



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
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IN REPLY REFER TO

PQA 720.7.102.5

October 22, 2002
02-PQA-077(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA

SUBJECT: Audit Guidance for Performing Internal Control Audits

A. Summary

For the reasons noted in the detailed guidance, FAO Managers are required within six months of the date of this MRD to take the following actions.

- Supersede any report (and related ICAPS data) still being relied upon for an ICAPS-related systems audit that resulted in both an adequate opinion and a finding of one or more significant internal control deficiencies.
- Supersede any known report still being relied upon for an accounting system audit performed after contract award using the NMAPSYS program IF THAT REPORT was:
 - prepared using the shell audit report language developed for full scope accounting or billing system internal control audits (i.e., Code 11010 or 11070 assignments), and
 - the report language was not appropriately modified to accurately reflect the NMAPSYS audit steps performed.
- Perform a review of the cycling of all major contractor accounting and management (ICAPS) systems audits to ensure that none are out of cycle, i.e., that a report has been (or will be) appropriately issued for each required systems audit within the last 2 to 4 years as required by Agency policy (CAM 5-103).

B. Detailed Guidance

The guidance in this memorandum addresses concerns raised in the areas below that all relate to the accuracy and/or reliability of certain DCAA reports on audits of contractor management and accounting systems and related internal controls.

1. Requirement to Supersede Any System Audit Report and Related ICAPS Still Being Relied Upon that Opines the Contractor's System is "Adequate" Based on the Contractor's Proposed, but not Yet Completed, Correction of a Significant Internal Control Deficiency. Prior to January 31, 2001, the guidance at CAM 10-408.2a permitted auditors of contractor management

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and accounting systems to opine that the contractor's system was adequate based on the contractor's proposed, but not yet completed, correction of a significant internal control deficiency. Beginning with the January 2001 edition of CAM, we revised the guidance to state that under such circumstances, the auditor had to opine that the contractor's system was inadequate or inadequate in part until the auditor was able to actually verify that the contractor's action was completed and that it did in fact correct the deficiency. At this time, we are requiring FAO Managers to supersede within six months of the date of this MRD any report (still being relied upon) for a systems audit that resulted in both an adequate opinion and a finding of one or more significant internal control deficiencies. The FAO can either (1) supersede the original report with a report that re-states the systems audit opinion as inadequate or inadequate in part per the current CAM guidance, or (2) issue a new report and audit opinion based on the completion of a more current, full scope or follow-up systems audit based on current CAM guidance. Concurrent with this action, the FAOs must also appropriately revise/update any impacted ICAPS data in their Internal Control Review Systems (ICRS) or Permanent Files.

2. Requirement to Supersede Any System Audit Report and Related ICAPS Still Being Relied Upon that Opines Using CAM 10-408.2 Language that a Nonmajor Contractor's System is "Adequate" Based on Performing the Limited Steps in DCAA's NMAPSYS Standard Audit Program. During the Fiscal Year 2000 President's Council on Integrity and Efficiency (PCIE)-based QA reviews, it was noted that several FAOs had performed audits of nonmajor contractors' accounting and billing systems after contract award using the NMAPSYS accounting and billing system modules (Preaward Accounting System Survey). However, the FAOs had issued audit reports based on the 11070RPT and 11010RPT audit report shells which are intended for reporting the results of full-scope accounting and billing internal control audits using the Agency's Internal Control Audit Planning Summary (ICAPS) process. The audit report shells 11070RPT and 11010RPT do not accurately reflect the audit procedures performed in the NMAPSYS accounting and billing system modules. The procedures in NMAPSYS are not sufficient to provide a basis to opine on the key control activities and objectives that comprise a full-scope audit of internal controls. (Until the issuance of MRD 02-PPD-072, dated October 2, 2002, DCAA did not have a shell audit report for the accounting system surveys at nonmajor contractors performed after contract award.) FAO management and audit teams with existing knowledge of the issuance of audit reports on nonmajor accounting system audits where the report provides an opinion on internal controls, but the audit steps were not sufficient to express such an opinion, are required to supersede such reports with accurately worded reports within six months of the date of this MRD. Refer to MRD 02-PPD-072 and its enclosed shell report for the wording being recommended for reporting the results of accounting system audits at nonmajor contractors performed after contract award using the NMAPSYS program.

3. Requirement to Cycle DCAA Audits of Contractor Management and Accounting Systems Every 2 to 4 Years at Major Contractors. The FY 2000 PCIE-based QA review also disclosed instances where FAOs were not completing audits of major contractors' management and accounting systems every 2 to 4 years as required by CAM 5-103a. FAOs should review their current processes to ensure that each of the significant and relevant accounting or management systems (as defined in CAM 5-102d) have been completed within the past 4 years at major contractor locations. If the FAO has not completed an audit of a *significant* system within the past

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4 years, the FAO should initiate an audit of the system immediately and revise its processes to ensure future compliance with Agency policy. If the FAO determines that a particular system is *not significant* or that it is otherwise not necessary to perform one or more of the system audits within the 2-4 year cycle, the FAO should clearly document its basis for not completing the audit(s) in the *ICAPS* permanent file. Regions should continue to monitor FAO compliance with this policy.

C. Concluding Remarks

Please direct any questions or concerns you may have to your regional office. Regional offices may address their questions to Mr. Ken Saccoccia, Program Manager, Quality Assurance Division (PQA) at 703-767-2250 or e-mail address, dcaa-pqa@dcaa.mil.

/Signed/

Robert DiMucci
Deputy Assistant Director
Policy and Plans

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